



Communication on Progress
2007

UN GLOBAL COMPACT

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Introduction

The UN Global Compact is the world's largest voluntary corporate citizenship initiative with thousands of participants located in over 100 countries. The Global Compact brings together actors in government, business, labor and civil society with the mission of advancing universal principles in the areas of human rights, labor standards, the environment and anti-corruption. Additionally, the Global Compact plays a central role within the United Nations by developing policy on UN-business engagement and advancing the partnership agenda across the UN system.

Each year, Global Compact participants must submit a *Communication on Progress* that describes a company's efforts to implement the Ten Principles. As such, Pacific Architects and Engineers (PAE) is proud to present our 2007 *Communication on Progress* and reaffirmation of our commitment to the Global Compact and its Ten Principles.



Letter From PAE

Dear Colleague:

As a company that operates in the global arena, we have the opportunity and responsibility to positively shape our communities through being a model corporate citizen. At Pacific Architects and Engineers (PAE), we have long believed that integrity is paramount to business excellence. As such, PAE committed to participate in the UN Global Compact in November 2002, as we prepared what would become a winning proposal to continue providing airfield operations in the Democratic Republic of the Congo (DRC) for a second successful contract term.

In 2006, PAE became part of Lockheed Martin Corporation (Lockheed Martin). PAE joins a corporation that is known for its commitment to communities both at home and abroad.

As a part of Lockheed Martin, PAE continues to provide outsourced support services to U.S. government agencies, foreign government agencies and international aid organizations. The company performs its services in more than 30 countries, supporting mission readiness, infrastructure and stabilization operations, as well as disaster relief activities.

While the spirit of the UN Global Compact's Ten Principles has always been part of PAE and Lockheed Martin's cultures and business management practices, as a participant in the Global Compact, PAE embraces the Ten Principles as a part of our corporate philosophy and policy.

Human Rights

PAE is fully committed to human rights. Our *Culture of Performance Excellence* both supports the UN Global Compact and enhances the way we do business as a company and as world citizens. Our *Culture of Performance Excellence* continues to refocus the way PAE professionals perform on our contracts, and the way they take responsibility and accountability for the world in which they operate on PAE's behalf.

Since our last *Communication on Progress*, we have achieved our goals of expanding the readership of our weekly newsletter, *Commitment to Excellence*, and of increasing the understanding of PAE philosophies and policies, including the UN Global Compact at the grassroots level through our weekly *Culture of Performance Excellence* meetings. As we grow as part of Lockheed Martin, PAE will both continue and expand this program.

Labor Standards

PAE is committed to developing our professionals, to engage every professional in the most meaningful manner, and to providing advancement opportunities. By applying the principles of fairness, respect, commitment and recognition, we nurture individual talent, foster teamwork, and promote a productive work environment that benefits each individual, the company and our customers.

We recognize the importance of diversity and inclusion as a foundation to fair labor practices and a sound business. As a Lockheed Martin company, we employ a tool called the Diversity Maturity Model (DMM). The DMM survey helps us to conduct risk assessment and to establish policies that ensure our workforce is comprised of a diverse constituency.

Letter From PAE cont.

In 2007, PAE received a high rating on the DMM, which demonstrates PAE's commitment to fair labor standards. We will continue to grow this program as we grow our business.

The Environment

We recognize the stress our planet is experiencing as the result of many areas of growth. As a part of Lockheed Martin, PAE has joined efforts to establish and act upon the specific goal of reducing our carbon footprint in the areas of environmental management, sustainability and energy efficiency.

In the broadest sense, PAE will be working to: eliminate environmental impact from our operations; conserve natural resources; and, promote environmental stewardship in global and local communities by focusing on air emissions, water and land utilization, energy and climate, environment, supply chain management and procurement.

Anti-Corruption

PAE follows the strictest anti-corruption guidelines in the world. We adhere to the Foreign Corrupt Practices Act (FCPA), which prohibits U.S. corporations from offering or paying, or authorizing the offer or payment, of anything of value to foreign government officials, foreign political parties, party officials or candidates for foreign public office, or to officials of public international organizations in order to obtain or retain business. The FCPA also requires publicly-held U.S. companies to make and keep books and transactional records that are subject to review.

In addition, as a government contractor, we are monitored by various government agencies and we regularly conduct internal audits on our programs.

Finally, we take special care to educate our employees. PAE has a vigorous ethics program, channels for communication as well as many training opportunities. Our mission is to ensure that we operate in accordance with the highest standards.

Please see more information on the preceding four categories in our Detailed Performance section of the attached report.

Participating in the UN Global Compact gives PAE the opportunity to leverage our resources to help make the world a better place. We look forward to continuing our work for positive change.

Sincerely,

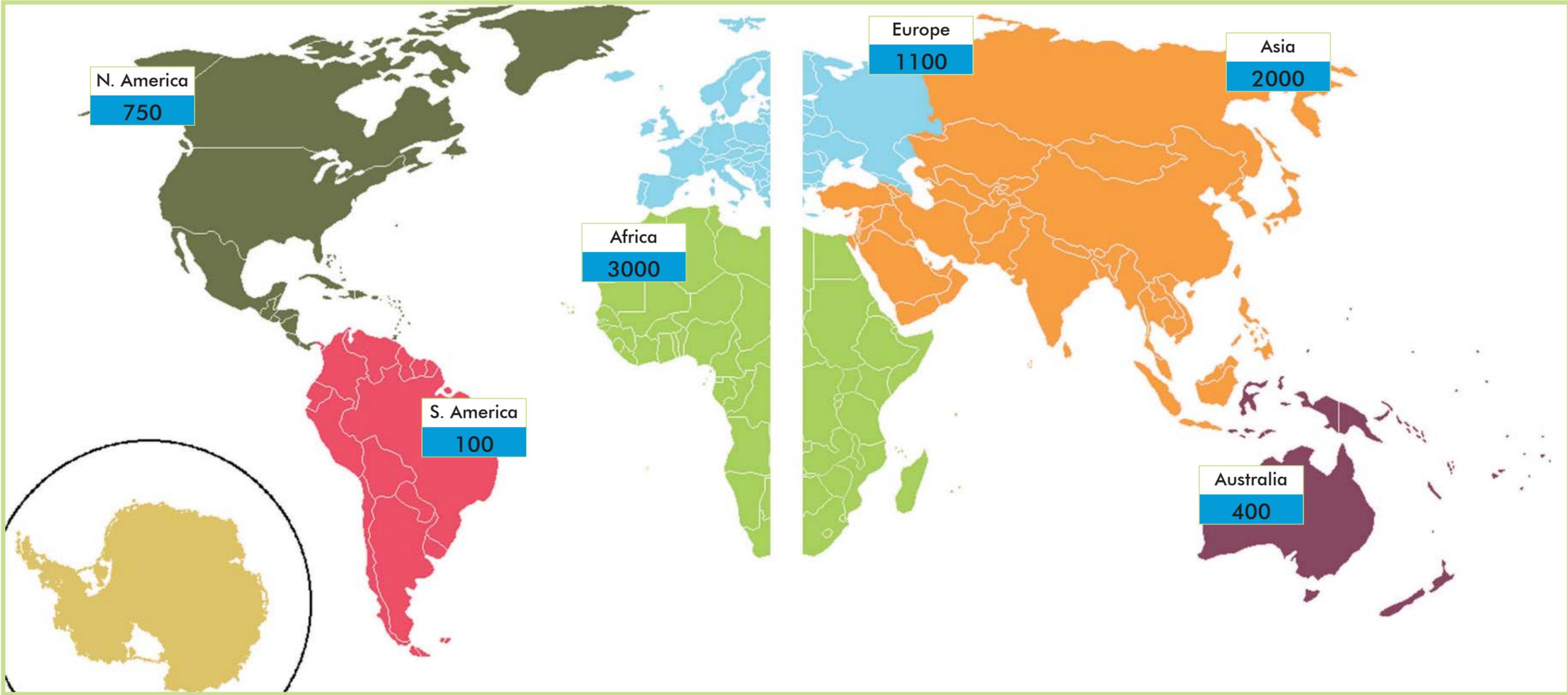


John Moore
PAE, Inc.



Where We Are

PAE operates programs throughout the United States in addition to our operations in over 30 countries, on all seven continents.



The Ten Principles of the UN Global Compact

Human Rights

- Principle 1: Businesses should support and respect the protection of international human rights; and
- Principle 2: make sure they are not complicit in human rights abuses.

Labor Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labor;
- Principle 5: the effective abolition of child labor; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

The Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility;
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Detailed Performance

Human Rights



PAE adheres to the principles of human rights as part of our policies and practices on every project. Our business practice is to not participate in or condone any human rights abuses, as we support Lockheed Martin's vision of "Do what's right, respect others, and perform with excellence."

Do What's Right

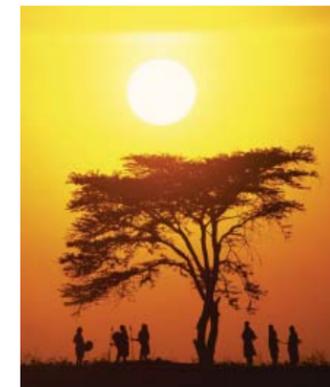
We are committed to the highest standards of ethical conduct in all that we do. We believe that honesty and integrity engender trust, which is the cornerstone of our business. We abide by the laws of the United States and other countries in which we do business, we strive to be good citizens and we take responsibility for our actions.

Respect Others

We recognize that our success as an enterprise depends on the talent, skills and expertise of our people and our ability to function as a tightly integrated team. We appreciate our diversity and believe that respect - for our colleagues, customers, partners, and all those with whom we interact - is an essential element of all positive and productive business relationships.

Perform With Excellence

We understand the importance of our missions and the trust our customers place in us. With this in mind, we strive to excel in every aspect of our business and approach every challenge with a determination to succeed.



PAE employees adhere to Lockheed Martin's standard of Full Spectrum Leadership, a concept that provides a set of "imperatives" for our leaders are expected to behave. Our leaders are to demonstrate inclusive behavior, communicate our mission and educate their team about diversity and inclusion. We believe this will help ensure that we are creating an environment when employees feel welcome, respected, and able to develop professionally.

Labor Standards



PAE's human resources policies and procedures adhere to the Global Compact's four labor principles. We take every action to adhere to fair labor standards.

Discrimination of any kind is completely prohibited by PAE policy. Our managers are well-trained on this issue and on fair labor practices. On every contract, they ensure PAE has legal advisors from our host countries.

Additionally, on nearly every international contract, PAE employs, trains, and seeks advancement opportunities for local national people. In compliance with PAE policy and as addressed in Global Compact Principles Four and Five, we have neither forced nor child labor on any PAE contract.

Moreover, PAE deliberately focuses on building internal capacity and self-sufficiency in our international workforces by training local nationals in technical, administrative, and management skills, which prepares them to stand on their own. Furthermore, many of our contracts have unionized workforces with whom we support freedom of association and the right to collective bargaining.



Finally, we have excelled internally in fair labor practices and in diversity standards. Lockheed Martin uses a tool called the Diversity Maturity Model (DMM) to measure our progress as an organization. The DMM survey helps us to conduct risk assessment and to establish policies that ensure our workforce is comprised of a diverse constituency.

As a part of the Information Systems & Global Services business area within Lockheed Martin, in the 2007 DMM survey PAE received the highest rating in the corporation, which indicates that diversity standards are embraced by our culture.



The Environment

PAE embraces and enforces UN Global Compact environmental standards in its operations worldwide. While not always specified in a particular contract, environmental considerations are of significant importance to PAE. These standards are addressed in PAE *Basic Number 12*, the full text of which can be found in Appendix One of this document, as well as in our Lockheed Martin environmental policies and practices, which are described below.

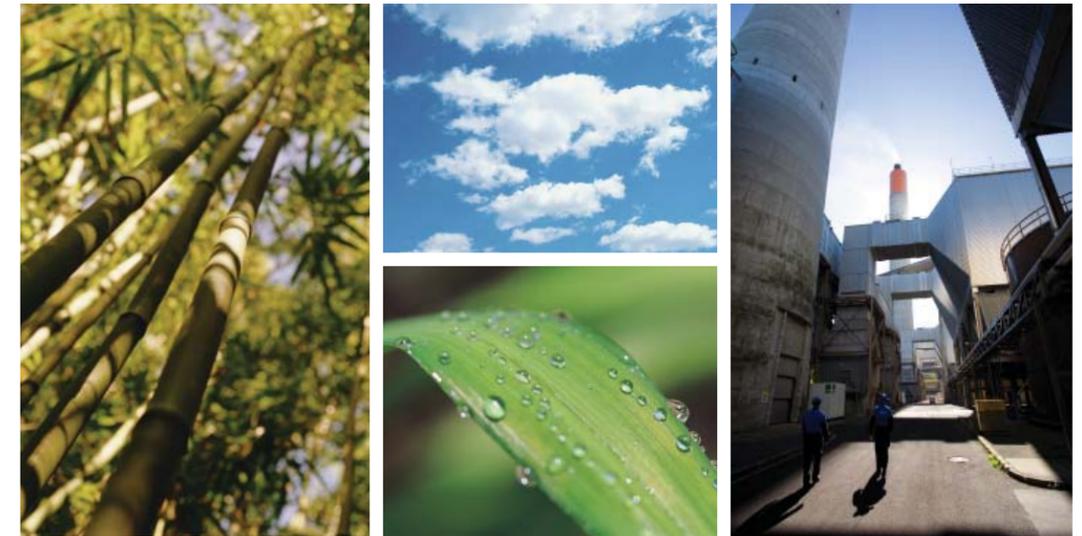
Target Zero

As a part of Lockheed Martin, PAE strives to have zero impact on the environment. Lockheed Martin has a corporate initiative to work to reduce the impact of its operations on the climate, to conserve natural resources and to promote environmental stewardship in the community.

Lockheed Martin's "Target Zero" program - with a mindset that only zero impact is acceptable - drives the Corporation's environmental activities. Moving forward in 2008, a corporate-wide Environmental Strategy Working Group - in collaboration with the Corporation's Energy and Climate Task Force - is working to ensure Lockheed Martin:

- Reduces its carbon impact through increased energy efficiency and use of renewable fuels.
- Reduces waste to landfills through recycling, alternative materials and disposal methods.
- Reduces industrial wastewater discharge through water use reduction and recycling facilities.
- Eliminates substances of concern by developing a corporate restricted chemicals list and implementing processes to remove them from use.

Taking a proactive, approach, the Corporation's environmental program also is working to integrate "mistake proofing" techniques and "close call" identification procedures that help employees identify - and thus avoid - environment risks and hazards. Simultaneously, the program is working with Lockheed Martin engineers to ensure they are considering the environment when they design new products.



And because the supply chain plays a critical role in Lockheed Martin products, the Corporation is strengthening its communication with suppliers to ensure they, too, are setting high standards for environmental excellence. For example, as Lockheed Martin works to comply with new European regulations regarding the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the Corporation is reaching out to suppliers to provide education and tools that ensure their products are REACH compliant.

Environmental Compliance Plans and Energy Efficiency

Additionally, many of our contracts require submission of a formal Environmental Compliance Plan to the client for review and approval before we start work. In our effort to reduce our environmental footprint, and in keeping with our ISO-driven continuous improvement process, our professionals are always looking for ways to address the care of our environment through application of new resource conservation technologies, waste minimization and pollution prevention.

As such, we have energy program managers who work closely with ESH, facility operations managers and designated working groups throughout Lockheed Martin to promote energy efficiency through employee education, improved maintenance practices and capital investments.

Since 2001, Lockheed Martin has invested more than \$40 million in capital improvements specifically targeted at increasing energy efficiency and lowering greenhouse gas emissions across the Corporation. To date, 167 projects have been completed and

Detailed Performance

have saved more than 125 million kilowatt hours of energy. As a member of the U.S. Environmental Protection Agency's Climate Leaders program, Lockheed Martin has pledged to reduce its greenhouse gas emissions by 30 percent per dollar revenue between 2001 and 2010.

Environmental Sustainability

Committed to the efficient use of natural resources, Lockheed Martin adheres to a "Buy Smart, Use Less" business model. The Corporation purchases renewable energy and CO2 offsets, strategically procures gas and electricity using centralized natural gas acquisition management, bids competitively for electricity in deregulated markets, and selects the best rates in regulated markets. To reduce its usage, the Corporation invests in facility and equipment enhancements that save energy, and it conducts employee awareness campaigns that provide education and tips on how employees can reduce their individual energy usage.

Lockheed Martin is dedicated to implementing practices and pursuing projects that protect natural resources, conserve energy and reduce emissions. To align Lockheed Martin's sustainability activities across the entire enterprise, two working groups with representatives from across the Corporation recently joined forces to create a comprehensive strategy for:

- Reducing carbon impact through increased energy efficiency and use of renewable fuels.
- Reducing waste to landfills through recycling, alternative materials and disposal methods.
- Reducing industrial wastewater discharge through water use reduction and recycling facilities.
- Eliminating substances of concern by developing a corporate restricted chemicals list and implementing processes to remove them from use.

Additionally, as a charter partner of the Climate Leaders program of the U.S. Environmental Protection Agency, the Lockheed Martin has pledged to reduce its greenhouse gas emissions by 30 percent per dollar revenue between 2001 and 2010.

To achieve this goal, Lockheed Martin has invested more than \$40 million since 2001 in capital improvements specifically targeted at increasing energy efficiency and lowering emissions. The improvements include the upgrade of major heating, ventilation and air



Detailed Performance



conditioning systems, installing steam powered turbines for electricity production as well as the florescent lighting systems. As a result, Lockheed Martin has saved more than 125 million kilowatt hours of energy - enough to power 10,000 homes for a year. The savings equated to a 96-million metric ton reduction in carbon dioxide emissions.

Other recent activities include:

- Purchasing 25 million kilowatt hours of Wind-e® renewable energy credits from SKY Energy Inc. Generated from a wind farm that meet Green-e standards, the renewable energy credits offset or displace 17,131 tons of greenhouse gases.
- Embarking on a major information technology upgrade that removes more than 1,000 servers, thus saving about 4.2 million kilowatt hours and eliminating more than 2,200 metric tons of carbon emissions.
- Working with Lockheed Martin's supply chain to reduce all forms of waste and to develop standards for green buildings.

Lockheed Martin's sustainability activities are garnering national attention. In 2007, National Geographic magazine recognized Lockheed Martin as a "Global Climate Change Champion" for its "significant achievements to reduce greenhouse gas emissions and carbon footprint."



Anti-Corruption



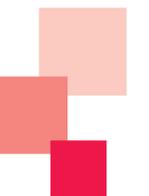
PAE looks to Global Compact member firms to promote and adopt initiatives to counter all forms of corruption, including extortion and bribery. For over 50 years, PAE and our professionals always have aligned our actions with our values. As part of Lockheed Martin, our commitment to an ethical workplace continues.

All of our employees complete annual ethics training and are provided materials about business conduct and our ethical standards. We have ethics officers and other members of the company in addition help lines available to employees whenever concerns arise

When we have substantiated ethical violations, appropriate action is taken. We follow up with all employees who raise ethics concerns to see if they are satisfied with the way the matter was handled.

Finally, we conduct all-employee ethics surveys and make the results available to all employees. In this way, we all take responsibility for creating an ethical environment within our company.

PAE is a company that can be trusted to advance human rights, workers' rights, and care for the environment, and to diligently discharge our responsibilities with integrity.



PAE Basics

- 1 The Credo is the principal belief of our company. It must be known, owned, and energized by all.
- 2 Our Motto is *Professionals Providing Solutions*. More than simply performing a service, our professionals strive with empathy to understand our customers' objectives and anticipate their needs, and take initiative in providing our customers with responsive solutions.
- 3 The brandline of our Logo is *Together...A Partnership in Excellence*. We work together with our customers, in a professional, cooperative, and pro-active manner, to achieve our mutually shared objectives.
- 4 PAE's Quality Policy: *The Five Key Elements of Service* is the foundation of PAE performance excellence. These elements must be used in every project to ensure full customer satisfaction, retention, and loyalty.
- 5 PAE's Employee Promise is the basis for our PAE work environment. Each professional is responsible for creating a work environment of teamwork, respect, and dignity, so that the requirements of our customers and the needs of each other are met. PAE's Employee Promise will be honored by all professionals.
- 6 PAE has a reputation of uncompromising integrity – of actions aligned with values; of promises and commitments met. Our professionals are entrusted with the responsibility to ensure that their actions are aligned with the company values of Integrity, Empathy, Respect, Stewardship, Initiative, Teamwork, and Commitment to the benefit of each individual, each stakeholder, and the company.



- 7 Company objectives are communicated to all our professionals and it is everyone's responsibility to support them.
- 8 Each professional is a member of our Partnership in Excellence and is encouraged to take the initiative to identify better ways to deliver our services that result in higher quality, improved timeliness, lower cost, or better value.
- 9 To create pride in the workplace, all of our professionals have the right to be involved in the planning of the work that affects them.
- 10 Everyone is responsible to convey a professional image. Personal appearance will be appropriate for the individual's occupation and work location, and whenever possible, in accordance with the *PAE Brand Identity Standard*.
- 11 Think safety first. Each professional is responsible for creating a safe, secure and accident free environment for all customers and each other. Be aware of all fire and safety emergency procedures and report any security risks immediately.
- 12 The protection and stewardship of the customers' and PAE's assets are the responsibility of every professional to include conserving energy, properly maintaining the customers' and our assets, and protecting the environment.



